Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Tran	Analyst:	Nicole Kwon	Bill Number:	AB 199
Related Bills:	See Legislative History	Telephone:	845-7800	Introduced Date:	1/31/2005
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Enterprise Zones/No More Than 52 Enterprise Zones May Be Designated At Any One Time

SUMMARY

This bill would expand the number of enterprise zones (EZs) that may be designated from 42 to 52.

PURPOSE OF THE BILL

According to the author's office, the purpose of the bill is to assist economically disadvantaged areas by encouraging businesses to locate in the new zones that would be created by this bill.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative January 1, 2006.

POSITION

Pending.

ANALYSIS

<u>FEDERAL/STATE LAW</u>

Existing federal law provides for the existence of empowerment zones and enterprise communities to provide economic revitalization of distressed urban and rural areas.

Under the Government Code, existing state law allows the governing body of a city or county or a city and county to apply for designation as an EZ. Using specified criteria, the Department of Housing and Community Development (DHCD) designates EZs from the applications received from the governing bodies. EZs are designated for 15 years. Currently, 39 of the authorized 42 EZs have been designated.

Under the Revenue & Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within the EZ. These incentives include a sales or use tax credit, a hiring credit, a business expense deduction, a net interest deduction, and a tax credit for employees working in an EZ.

<u>THIS BILL</u>

This bill would authorize DHCD to designate an additional 10 EZs, thereby increasing the maximum total of EZs to 52.

Board Position:			Department Director	Date
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IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

SB 1029 (Ashburn, 2003/2004) and AB 2342 (Salinas, 2001/2002) would have expanded the number of EZs from 42 to 44. Both bills failed to pass out of the house of origin.

AB 46 (Washington, Stat. 2001, Ch. 587) expanded the maximum number of EZs from 39 to 42.

AB 523 (Vargas, 2001/2002) would have required Technology, Trade, and Commerce Agency (TTCA) to designate an EZ within Imperial County (that included the cities of Brawley and Calexico) that was previously designated as a Manufacturing Enhancement Area, upon the request of the county's board of supervisors. The Governor vetoed this bill.

OTHER STATES' INFORMATION

Florida has 51 state enterprise zones that are designated until December 31, 2005. The Florida Legislature will determine at that time if the program should continue as is, continue with modifications, or be completely repealed.

Illinois has 93 enterprise zones, *Michigan* has 33 Renaissance Zones, and *New York* has 71 Empire Zones. Each of these states' designated zones does not appear to have an expiration date.

The laws of these states were reviewed because their tax laws are similar to California's income tax laws.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, the Personal Income Tax (PIT) and Corporation Tax revenue loss from this bill would be as follows:

Estimated Revenue Impact of AB 199 Effective January 1, 2006; Enacted After June 2005 ($ Millions)				
2005-06	2006-07	2007-08	2008-09	2009-10
No impact	-$6	-$18	-$38	-$52

This bill does not consider the possible changes in employment, personal income or gross state product that could result from this measure.

Revenue Discussion

Revenue losses for EZs under the personal income and the corporation tax laws would largely depend on the amount of qualifying property purchased subject to the sales tax, the amount of wages paid to qualifying employees, and the apportioned state tax liabilities of businesses claiming these tax benefits.

Personal communication with staff at DHCD indicates that no new EZs authorized by this bill would be designated in 2005. Therefore, assuming that new EZs are designated starting in tax year 2006, there would be no impact from this bill in fiscal year 2005-06.

There presently are 42 EZs authorized of which 39 EZs have been designated. Total revenue losses for the existing 39 designated EZs were estimated to be approximately $240 million for tax year 2002, the last full year for which data are available. About a third of the total is for PIT credits. This represents a rounded average of $6 million per zone ($240 million/39 zones=$6 million).

It is assumed that three of the 10 EZs authorized by this bill will be designated in the 2006 tax year, resulting in the first revenue impact in the 2006-07 fiscal year. Subsequent fiscal years would show increasing revenue losses as more EZs are designated. It takes about three years before the full impact of a new EZ is achieved.

The table below illustrates the assumed rate of designation of the 10 EZs authorized by this bill.

Tax Year	# of EZs	2005-06	2006-07	2007-08	2008-09	2009-10
2006	3		-$6	-$12	-$18	-$18
2007	3			-$6	-$12	-$18
2008	4				-$8	-$16
Total		**No impact**	**-$6**	**-$18**	**-$38**	**-$52**

At the current rate of credit usage, in fiscal year 2010-11, the revenue impact would be $60 million ($6 million x 10 EZs).

LEGISLATIVE STAFF CONTACT

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